

NEWS RELEASE

Senator Dede Alpert ★ **39th Senate District**



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PRESS ADVISORY

HOSPITAL SUNSHINE BILL COULD FOSTER MARKET REFORM

SACRAMENTO, Calif. – Senator Dede Alpert (D-San Diego) today announced legislation that would stop nonprofit hospitals from hiding their costs of care to purchasers and prevent hospital chains from forcing purchasers to take their overpriced hospitals along with their cost effective ones.

The measure, Senate Bill 1509, is designed to help purchasers evaluate both price and quality of hospitals when negotiating for services. Current law gives nonprofit hospitals a cloak of confidentiality that hampers purchasers from being able to fairly evaluate the value of those services.

If enacted, the bill would end the practice of nonprofit hospital chains requiring health plans to contract with every hospital within the chain. The practice hinders purchasers, such as the California Public Employees' Retirement System, from excluding coverage of high cost, lower-quality hospitals.

The bill is co-authored by Senate President Pro Tempore John Burton (D-San Francisco) and sponsored by CalPERS, the state's largest employer-purchaser of health benefits, with 1.2 million enrollees.

"Today, nonprofit hospitals are using confidentiality agreements to keep the true cost of their services hidden," said Sen. Alpert, "and as a result, purchasers such as the California Public Employees' Retirement System are without the full information needed to negotiate a fair and equitable price.

"Hospital costs represent a large share of health plan premiums, and it is neither in the public's interest nor in the interest of health care reform to keep this information hidden any longer. Since 2002, the State's employer contributions for health care have gone up by 47 percent – and hospital costs have a lot to do with that."

Under current law, nonprofit hospital chains have enjoyed an exemption from full financial disclosure of costs that is extended to most other charitable organizations. As a result, it is difficult for CalPERS and other purchasers to verify that the costs the nonprofit hospitals are charging are justified.

Moreover, the widespread disparity in statewide hospital prices – with no significant difference in quality – raises the specter of price gouging because charges are out of line with the actual cost of services.

"In our current negotiations, we learned that average prices in the Sutter Health chain are 80 percent higher than the statewide average for Blue Shield's California hospital network. It is well known in the industry and no one knows why," said Loren Suter, CalPERS Deputy Executive Officer, Benefits Administration.

"There's a big difference between the sticker prices that Sutter talks about and what it actually bills health plans for services – too often at a la carte prices. Research available to CalPERS and Sutter shows those payments are 80 percent higher than Blue Shield's statewide average for hospitals – adjusted for age, sex, and the severity of illness.

"Yet under existing law, a nonprofit hospital is not required to give us the information to independently justify those higher prices. If we are to get a handle on how to trim hospital costs, we need bring hospital prices into full light – the sooner the better."

Blue Shield provides coverage to approximately one-third of CalPERS health program participants.

Alpert's bill would:

- Require nonprofit charitable hospitals and health plans to report to the Attorney General certain financial information similar to existing reporting requirements for other charitable organizations;
- Require nonprofit charitable hospitals and health plans to report certain expenditures and receipts from affiliates and other for-profit business;
- Require health maintenance organizations and insurers that contract with a State agency to provide health care services to program participants to furnish copies of their hospital provider contracts, including compensation, to the contracting State entity upon request (State agencies would be required to maintain confidentiality of the provider contracts);
- Outlaw the current practice of nonprofit hospitals requiring health plans to contract for all of their facilities, services or products, or none of them, which prevents plans from excluding the most expensive hospitals.

In an analysis of 2003 claims data, Blue Shield found a wide disparity in costs among hospitals. For example, the cost of treating endometriosis (an infection that sometimes follows a hysterectomy), averaged \$3,800 per day at one hospital chain, compared with \$1,900 at other hospitals in the same region. The cost of treating chest pain not related to acute heart attack averaged \$2,300 a day at one facility, compared with \$1,400 at comparable area hospitals.

Hospital-related costs represent about 40 percent of CalPERS premium increases in the past two years and have figured prominently in the pension fund's current rate negotiations with health plans for 2005.

The bill is scheduled for its first hearing before the Senate Insurance Committee on April 21.

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